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C O N F I D E N T I A L SECTION 01 OF 03 HAVANA 000288

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TAGS: ECON PGOV PINR PREL CU

SUBJECT: NEW MEASURES: WINDOW DRESSING OR SIGNIFICANT?

REF: A. HAVANA 257
1B. HAVANA 279

Classified By: COM: Michael E. Parmly: For reasons 1.4 b/d

11. (C) SUMMARY: A seeming barrage of new economic measures has appeared since mid-March. Most are characterized by easy implementation, quick hard-currency generation and (the regime hopes) high political payoff -- for the GOC. Some seem to be plausibly integrated pieces of a larger and multifaceted economic plan, but one that is, as yet, impossible to define. The measures are significant insofar as they indicate the direction the GOC may be planning to go, but they are not the structural reforms the Cuban economy desperately needs. End Summary.

12. (C) Following is a listing of the new economic measures that have come to public light since mid-March:

-- Consumer electronics: GOC allows the sale of consumer electronics in hard currency stores, as delineated on Resolution 43/08 of the Ministry of Interior Commerce. GOC allows Cubans to own cell phones.

-- Agriculture: GOC offered tracts of unused land in "usufructo" (for use but without title of ownership) to interested farmers who could clear the land and make it productive (see Reftel A). GOC allows farmers to buy their own agricultural supplies, tools and equipment, instead of relying on the GOC to supply them (see Reftel A). GOC offers to pay 20 to 30% more to tobacco farmers for their product. According to our contacts and official GOC press, the GOC seems to have initiated a limited decentralization in agriculture by delegating some decision-making authority down to the municipal level -- authority that was formerly held at the central government level.

-- Hotel access: GOC lifted its ban Cubans staying in hotels and renting cars on the island (see Reftel B). The measure will be economically and politically beneficial for the GOC and to a small number of Cubans. However, a vast purchasing-power gap remains between the average Cuban and a hotel stay.

-- Prescriptions: GOC lifted restrictions on pharmacy sales.

-- Market prices: GOC releases its National Statistics

Office's economic survey of prices in the informal market.
(Comment: The GOC has always carried out such surveys as a way of monitoring the condition of average Cubans' daily lives and thereby maintaining its level of control. However, releasing the survey for the first time is significant. The survey, which evaluates goods and services spread among all of Cuba's markets -- rations, agromercados with limited supply and demand pricing, high-priced hard currency stores, and the black market -- is vital to any attempt to bring the two currencies closer to each other. Nevertheless, there has been no evidence that the GOC has begun to implement any such attempt. End Comment.)

Implementation without GOC fanfare:

¶3. (C) None of the new measures was published in the Justice Ministry's Gaceta Oficial, where traditionally all new measures -- including the most insignificant ones -- are published. Some measures, such as the sale of consumer electronics, were spelled out on internal ministry documents that were eventually leaked. Although the leaks themselves could be deliberately carried out by the GOC, there seems to be -- we believe intentionally -- no GOC propaganda campaign in conjunction with the introduction of the measures. Indeed, the international press -- not the GOC -- has been the main source of publicity for the measures, and especially responsible for the spotlight coverage the measures have received.

Calculated use of the official press:

¶4. (C) Though some of the measures have been mentioned in
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articles of the official GOC press, the coverage has been minimal and always after implementation of a given measure -- after knowledge of it has leaked informally and sometimes spread widely. In other instances, there seems to be a deliberate use of the official press. Several unusually blunt articles -- such as those on unemployment as well as on the misalignment between the most prevalent career tracks in the Cuban education system and needed "productive" or income-generating careers -- seem to support the "need to increase productivity" theme of Raul. Likewise, in a clear attempt to temper expectations in the weeks following Raul's February 24 speech, official newspaper Gramma's editor published a letter reinforcing the long term and gradual aspects of economic reforms, specifically as it pertains to the unification of the dual currency.

Details of most measures limited:

¶5. (SBU) The sale of consumer electronics was the only measure fully laid out in Resolution 43/08, an internal document of the Ministry of Interior Commerce which was leaked. Its specifications follow and provide a valuable window into the limitations that may be inherent in all the new measures.

-- The list of products to be initially phased in includes: computers, video equipment, televisions, pressure cookers, electric bicycles, and car alarms.

-- The resolution calls for the gradual introduction of these products commensurate with projected capacity of Cuba's electricity grid.

-- Prices for the products will be set by the Ministry of Finance and Prices.

-- Brands, models, spare parts, and accessories must be similar to those sold under the GOC's Energy Saving Program.

-- Diversity among the products shall be minimized, in order to ensure an adequate supply becomes available to provide proper warranty service and repairs.

-- In addition to the commercial enterprises selling the product, provincial repair shops (small state enterprises currently used for the repair of state-subsidized electronic products sold to the population under the GOC energy-saving plan) shall be incorporated to provide after-sale services for the products.

-- Commercial enterprises shall guarantee the supply of repair and warranty spare parts and accessories.

¶6. (C) Comment on Resolution 43/08: The new products will be sold under a clearly socialist framework: Prices will be set by the GOC; goods will be limited in type and variety, thereby limiting quality and competition; the introduction of goods will be driven not by consumer demand, but rather in conformance to a centralized GOC energy plan; the government's ubiquitous presence will continue to overburden the process, from intense oversight and regulation to requiring the integration of GOC state enterprises. This may turn out to be an efficient way for the GOC to sell -- instead of rationing -- centrally-purchased imports for hard currency. While Cubans have gained access to some formerly prohibited goods, the process will continue to miss one critical aspect: a market mechanism. End Comment on Resolution 43/08.

¶7. (C) Overall Comment: These measures may be part of a much larger economic plan aimed at increasing productivity. To achieve this the GOC will need to introduce many more new incentives. These measures could be the first of many to come or, given the absence of publicized GOC rollouts, the only ones which have come to public light thus far. They could also be the only measures that were uncontroversial enough to gain a consensus of approval within the GOC. For now, the key questions on economic reform remain unanswered: How far from the socialist model/how fast toward the free market model will the GOC be willing to go, how much control

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will it be willing to risk, and will it be able to keep up with growing expectations.

PARMLY